

**RAPID RIVER HOUSING COMMISSION**

**AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**June 30, 2006**

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Rapid River Housing Commission</b>		County <b>Delta</b>
Audit Date <b>6/30/2006</b>		Opinion Date <b>11/6/2006</b>		Date Accountant Report Submitted to State: <b>3/36/2007</b>

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

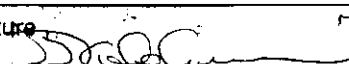
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>		
Reports on individual federal financial assistance programs (program audits).			<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).			<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) <b>Roger J. Kolehmainen CPA PC</b>			
Street Address <b>1445 East Cloverland Drive</b>	City <b>Ironwood</b>	State <b>MI</b>	ZIP <b>49938</b>
Accountant Signature 			

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Rapid River Housing Commission  
Rapid River, Michigan

We have audited the accompanying financial statements of the business-type activities of the Rapid River Housing Commission as of and for the year ended June 30, 2006, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the business-type activities of the Rapid River Housing Commission as of June 30, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2006 on our consideration of the Rapid River Housing Commission's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Rapid River Housing Commission's basic financial statements. The Financial Data Schedule and Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Roger J. Kolehmainen PC  
Certified Public Accountants  
Ironwood, Michigan

November 6, 2006

**Rapid River Housing Commission  
Management, Discussion & Analysis (Unaudited)**

The purpose of this MD & A is to serve as a basic tool for reading and understanding the financial statements of the Housing Commission. The information presented here should be viewed in conjunction with the Commission's financial statements. The Housing Commission's books are reported using the full accrual method, which means that all revenues and expenses are taken into account regardless of when cash is received and/or paid out. The programs are funded directly by the United States Department of Housing and Urban Development.

**Using This Report**

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows provides information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

The Housing Commission prepares the above financial statements in a similar manner used by most private-sector companies. The Statement of Net Assets reflects the financial health of the Housing Commission. The difference between assets and liabilities, which increase or decreases in net assets, indicates the financial health of the project. The greater the net assets amount, the healthier the finances of the Commission. Other non-financial factors will also need to be considered such as changes to population of low income and elderly individuals. The following summarizes the two programs that the Rapid River Housing Commission operates on a daily basis.

**Low Rent Public Housing**

The Housing Commission was developed in 1982 and currently owns 24 units that are provided to both elderly and disabled individuals. The Commission is responsible for management, maintenance, utilities and various other tasks associated with operating the project, also known as Riverside Manor. Each year, the Housing Commission applies for Operating Subsidy, which is funded at a level determined by HUD. In addition to tenant revenue, interest income and other miscellaneous income, the subsidy is used to provide safe and affordable housing to residents.

**Capital Fund**

The Housing Commission is awarded this grant each year, based on HUD's available funding. It is used to for physical improvement of the property and surrounding landscape. It may also be used for equipment such as dwelling equipment, office, maintenance and community room equipment and operating expenses. The funds should be expended as they are drawn down through what is called a LOCCS system.

The financial statements included in this report are those of a non-profit enterprise fund engaged in a business-type activity. The following statements are included:

- Statement of Net Assets - reports on the Commission's current financial resources with capital and other assets and long-term debt obligations and other liabilities.
- Statement of Revenues, Expenses and Changes in Fund Net Assets- reports the Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.

#### **Statement of Net Assets**

<b>Assets</b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>Change</u></b>
Cash/Investments	\$106,833	\$105,673	\$1,160
Other Current Assets	9,950	13,575	(3,625)
Capital Assets, Net	726,056	760,396	(34,340)
<b>TOTAL ASSETS</b>	<b>\$842,839</b>	<b>\$879,644</b>	<b>(\$36,805)</b>
<b>Liabilities</b>			
Accounts Payable	\$2,590	\$2,350	\$240
A/P-Other Gov't	4,338	2,740	1,598
Other Current Liabilities	9,869	24,891	(15,022)
<b>Total Liabilities</b>	<b>\$16,797</b>	<b>\$29,981</b>	<b>(\$13,184)</b>
<b>Net Assets</b>			
Invested in Capital Assets	\$726,056	\$760,396	(\$34,340)
Unrestricted Net Assets	99,986	89,267	10,719
<b>Total Net Assets</b>	<b>\$826,042</b>	<b>\$849,663</b>	<b>(\$23,621)</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$842,839</b>	<b>\$879,644</b>	<b>(\$36,805)</b>

Total Assets for FYE 2006 total \$842,839, which is \$36,805 less than FYE 2005. Total liabilities for FYE 2006 total \$16,797, which is \$13,184 less than FYE 2005.

Net Assets declined by \$23,621 from 2006 to 2005 due mainly to the addition of \$55,664 to accumulated depreciation.

# Statement of Revenues, Expenses and Changes in Fund Net Assets

	<u>2006</u>	<u>2005</u>	<u>Change</u>
<b>Operating Revenues</b>			
Tenant Revenue	\$65,393	\$63,794	\$1,599
Operating Grants/Subsidy	31,776	26,648	5,128
Miscellaneous Revenue	620	113	507
<b>Total Operating Revenues</b>	<b>\$97,789</b>	<b>\$90,555</b>	<b>\$7,234</b>
<b>Operating Expenses</b>			
Administration	\$25,307	\$25,645	(\$338)
Tenant Services	467	180	287
Utilities	26,269	23,578	2,691
Maintenance	33,554	27,433	6,121
General	7,219	7,143	76
Extraordinary	5,794	5,458	336
Depreciation	55,664	50,747	4,917
<b>Total Operating Expenses</b>	<b>\$154,274</b>	<b>\$140,184</b>	<b>\$14,090</b>
Operating Income/(Loss)	(56,485)	(49,629)	(6,856)
<b>Non-operating Revenues</b>			
Interest Income	1,961	1,530	431
<b>Income (Loss) before contributions/transfers</b>	<b>(54,524)</b>	<b>(48,099)</b>	<b>(6,425)</b>
<b>Capital Grants</b>	<b>30,903</b>	<b>19,332</b>	<b>11,571</b>
<b>Change in Net Assets</b>	<b>(23,621)</b>	<b>(28,767)</b>	<b>5,146</b>
Total Assets-Beginning	849,663	878,430	(28,767)
<b>Total Assets-Ending</b>	<b>\$826,042</b>	<b>\$849,663</b>	<b>(\$23,621)</b>

The total increase in revenue is approximately 8% and is mainly due to increase tenant revenue and operating subsidy. The total increase in expenses is approximately 10% and is due to slight increase in utilities, maintenance cost and depreciation costs.

The Housing Commission's financial success is dependent on operating and capital grants received from the US Dept of HUD. There are various local economic factors that could affect the Commission's profit or loss, such as local employment opportunities, supply and demand for local jobs and inflationary adjustments to utilities and other local suppliers. In spite of rising operating costs, the Rapid River Housing Commission will continue to do the best job they can in providing safe, sanitary and decent housing for their residents.



### **Capital Assets**

The Commission had \$726,056 investment in various types of capital assets including land, buildings and equipment at June 30, 2006 compared to \$760,396 at June 30, 2005. The Commission invested \$21,324 in capital assets during the year ended June 30, 2006.

### **Economic Factors and Next Year's Budgets and Rates**

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2006/2007. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2006/2007 budget process.

### **Contacting the Commission's Financial Management**

This report was written to provide readers with a general overview of the Commission's finances and the manner in which it spends the revenue it receives. If you have questions about this report or need additional information, contact the Executive Director, at 10570 North Main Street, Rapid River, Mi 49878, or call (906) 474-9370.

**RAPID RIVER HOUSING COMMISSION**

**STATEMENT OF NET ASSETS  
Proprietary Fund**

**June 30, 2006**

**ASSETS**

<b><u>Current Assets</u></b>	
Cash and cash equivalents	\$106,833
Tenants receivables	114
Account receivable-HUD	5,876
Accrued interest receivable	36
Prepaid expenses	1,358
Inventories	2,565
Total Current Assets	<u>116,782</u>
<b><u>Noncurrent Assets</u></b>	
<b><u>Capital Assets:</u></b>	
Land	1,305
Buildings	1,461,700
Equipment	46,149
Leasehold improvements	217,769
Accumulated depreciation	(1,013,043)
Construction in progress	12,176
Total Capital Assets	<u>726,056</u>
<b>TOTAL ASSETS</b>	<u><b>\$842,838</b></u>

**LIABILITIES AND NET ASSETS**

<b><u>Current Liabilities</u></b>	
Accounts payable	\$2,590
Accrued payroll/taxes	4,337
Intergovernmental payables	2,682
Deferred revenues	2,824
Total Current Liabilities	<u>12,433</u>
<b><u>Other Liabilities</u></b>	
Tenant deposits	4,363
<b>TOTAL LIABILITIES</b>	<u><b>16,796</b></u>
<b><u>Net Assets</u></b>	
Investment in capital assets, net of related debt	726,056
Unrestricted net assets	99,986
<b>TOTAL NET ASSETS</b>	<u><b>826,042</b></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$842,838</b></u>

The accompanying notes to financial statements are an integral part of this statement.

RAPID RIVER HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the year ended June 30, 2006

<u>FUNCTIONS/PROGRAMS</u>	<u>Program Revenue</u>			Net (Expense) Revenues and Changes in Net Assets <u>Business-Type Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Public Housing	\$154,274	\$66,013	\$62,679	(\$25,582)
General revenues:				
Interest income				1,961
Total general revenues				1,961
Changes in net assets				(23,621)
Net assets, beginning of year				849,663
Net assets, end of year				\$826,042

The accompanying notes to financial statements are an integral part of this statement.

RAPID RIVER HOUSING COMMISSION

STATEMENT OF REVENUES, EXPENSES AND  
CHANGE IN NET ASSETS  
Proprietary Fund

For the Year Ended June 30, 2006

<u>OPERATING REVENUES</u>	<u>TOTALS</u>
Tenant revenue	\$59,113
Other income	6,900
Program grants - subsidies	62,679
TOTAL OPERATING REVENUE	<u>\$128,692</u>
 <u>OPERATING EXPENSES</u>	
Administration	\$25,308
Tenant services	467
Utilities	26,269
Ordinary maintenance	33,553
General expenses	7,219
Extraordinary maintenance	5,794
Depreciation	55,664
TOTAL OPERATING EXPENSES	<u>\$154,274</u>
 OPERATING INCOME OR LOSS	 (25,582)
 NONOPERATING REVENUES (EXPENSES)	
Interest on investments	1,961
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>\$1,961</u>
 Changes in Net Assets	 (23,621)
 Net Assets - Beginning of Year	 <u>849,663</u>
 NET ASSETS - END OF YEAR	 <u>\$826,042</u>

The accompanying notes to financial statements are an integral part of this statement.

RAPID RIVER HOUSING COMMISSION

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2006

Operating Activities:

Cash received from tenants	\$59,402
Cash received from grants and subsidies	56,803
Cash payments for wages and related benefits	(28,979)
Cash payments for utilities	(26,080)
Cash payments to suppliers for goods and services	(40,623)
Net cash provided from Operating Activities	<u>\$20,523</u>

Capital and Related Financing Activities

Purchase of fixed assets	(21,324)
Net cash flows from Capital and Financing Activities	<u>(21,324)</u>

Investing Activities

Interest on investments	1,961
Net cash flows from Investing Activities	<u>1,961</u>

Net Change in Cash and Cash Equivalents	\$1,160
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Cash and Cash Equivalents- beginning of year	<u>105,673</u>
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CASH AND CASH EQUIVALENTS- END OF YEAR	<u>\$106,833</u>
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Reconciliation of Operating Income to Net Cash

Provided by Operating Activities:

Operating income (loss)	(\$25,582)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	55,664
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(5,605)
Decrease (Increase) in prepaids	192
Decrease (Increase) in inventory	312
Increase (Decrease) in accounts payable	240
Increase (Decrease) in accrued wages/taxes	1,049
Increase (Decrease) in intergovernmental payable	(58)
Increase (Decrease) in deferred revenues	(5,903)
Increase (Decrease) in tenant deposits	214
Net Cash Provided from Operating Activities	<u>\$20,523</u>

The accompanying notes to financial statements are an integral part of this statement.

## RAPID RIVER HOUSING COMMISSION

### NOTES TO FINANCIAL STATEMENTS June 30, 2006

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#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Rapid River Housing Commission's ("The Authority"), Masonville Township, is to prepare its financial statements in accordance with generally accepted accounting principles as applicable to enterprise funds of governmental units.

A. REPORTING ENTITY - This report contains the financial information of the Rapid River Housing Commission of the Township of Masonville Township (the "Authority"), which is a component unit of the Township of Masonville. The Authority is a legally separate organization. The Township Board of Masonville appoints the five members Board of Commissioners for five-year terms. The Board sets policy of the Authority and hires the Executive Director who hires and directs the Authority's staff. The reporting entity for the Authority consists of (a) primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. This report does not contain any component units.

The Authority was established for the purpose of engaging in the development, acquisition, and administrative activities of low-income housing programs and other programs with similar objectives. The United States Department of Housing and Urban Development (HUD) has direct responsibility for administering the low-income programs under the United States Housing Act of 1937, as amended. HUD is authorized to enter into contracts with local housing authorities to make loans to assist the local housing authorities in financing the acquisition,

**RAPID RIVER HOUSING COMMISSION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

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construction and/or leasing of housing units and to make annual contributions (subsidies) to local housing authorities for the purpose of maintaining the low-rent character of the local housing programs.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

**B. FINANCIAL STATEMENTS** - The Commission presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34. The Authority made the decision to implement these standards effective July 1, 2003.

**Government-Wide Financial Statements**

The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purpose.

## RAPID RIVER HOUSING COMMISSION

### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION** - The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into "investment in capital assets, net of related liabilities"; "restricted for capital activity and debt service", and "unrestricted" components.

The Authority has elected to follow Financial Accounting Standards Board pronouncements issued before November 30, 1989, and all pronouncements of the Governmental Accounting Standards Board. The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for dwelling rental and operating grants and subsidies funded by HUD. Operating expenses for the Authority include administrative expenses, tenant expenses, maintenance and operation, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

#### **D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY**

**Deposits and Investments** - For purposes of the statement of cash flows, the Authority considers all highly liquid investment with an initial maturity of three months or less when acquired to be cash equivalents.



RAPID RIVER HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustment necessary to record investments at fair value is recorded in the operating statement as increases or decreases in investment income.

Inventory is recorded at the lower of cost or market and primarily consisted of maintenance supplies and materials.

Receivables - The Authority uses the direct write-off method to recognize uncollectible accounts. All receivables are shown net of allowance for doubtful accounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Mandatory segregation of assets are presented as restricted assets. Such segregations are required by loan agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

Capital Assets - The Authority defines capital assets as assets with an initial cost of more than \$50 and an estimated useful life in excess of 1 year. All capital assets are valued at historical cost or estimated historical cost if actual amounts are unavailable. Donated fixed assets are recorded at their estimated fair value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related assets.

RAPID RIVER HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building shell and components	3-40 Years
Land improvements	15-20 Years
Furnishing and equipment	5-20 Years

Compensated Absences - Under terms of employment, employees are granted sick and vacation leave in varying amounts. Only benefits considered to be vested are disclosed in these statements.

All vested vacation and sick leave pay is recognized as an expense as earned by the employee..

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. There was no accumulated vacation and sick leave liabilities as of June 30, 2006.

Claims and Judgments - Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standard Board pronouncements are met. Claims and judgments are recorded as expenses when the related liabilities are incurred. There were not significant claims or judgments at year-end.

Equity Classifications - Equity is classified as net assets and displayed in three components:

Government-Wide Statements:

- Investment in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvement of those assets.

RAPID RIVER HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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- Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Inter-program Activity - As a general rule, the effect of activity between programs has been eliminated from the government-wide financial statements.

The transfer of cash between the various Authority's programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that is be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Inter-program receivables and payables are eliminated from the Statement of Net Assets.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

BUDGETARY INFORMATION - the Authority is required by contractual agreements to adopt annual, appropriated operating budgets for funds receiving federal expenditure awards. All budgets are prepared on a basis prescribed by HUD, which is materially consistent with generally accepted accounting principles. All annual appropriations lapse at year-end.

**Note 3 - DETAILED NOTES ON ALL FUNDS**

- A. DEPOSITS AND INVESTMENTS - The Authority's deposits and investments are categorized to give an indication of the level of custodial credit risk assumed by the entity at year-end. Category 1 includes items that are insured or registered or which are collateralized by or evidenced by securities held by the Authority or its agent in the Authority's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name, or uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the Authority's name. Category 3 includes uncollateralized deposits, and uninsured and unregistered investments, with securities held by the counter party or its trust department or agent but not in the Authority's name.

RAPID RIVER HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

1	<u>Category</u> 2	3	Totals	Fair Value
\$100,000		\$6,946	\$10,946	\$106,946

The Authority had no significant type of investment during the year not included in the above schedule.

Deposits in each local and area bank is insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for non-interest bearing accounts.

Tenant Deposits - Tenant security deposits which may be used for repairs and/or repayment upon termination of lease amounted to \$4,363 as of June 30, 2006.

**B. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions/ Reclassified</u>	<u>Deletions/ Reclassified</u>	<u>Ending Balance</u>
Capital Assets				
Not Being				
Depreciated				
Land	\$1,305	\$	\$	\$1,305
Other Capital				
Assets				
Buildings	\$1,433,220	\$28,480	\$	\$1,461,700
Furniture, equipment and machinery-				
Dwellings	14,599			14,599
Administrative	31,550			31,550
Leasehold	217,769			217,769
improvements				
Construction in	19,332	12,176	19,332	12,176
Progress				
Total Capital	\$1,717,775	\$40,656	(\$19,332)	\$1,739,099
Assets at Cost				
Less: Accumulated	(957,379)	(55,664)		(1,013,043)
Depreciation				
Net Capital	\$760,396	(\$15,008)	(\$19,332)	\$726,056
Assets				

Depreciation expense for the year was \$55,664.

RAPID RIVER HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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C. SUPPLIES

The Authority's inventory consists of supplies and small tools purchased primarily for use in maintenance of rental units. A physical inventory is taken of all supplies on hand at year-end. The last in, first out pricing method is used in determining inventory valuation as of June 30, 2006.

D. USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

E. INCOME TAXES

No provision for income taxes is recorded in the accounts, as the Authority is a non-profit, tax-exempt entity under the Internal Revenue Code. The Authority is not subject to Federal or State income taxes, nor is it required to file Federal and State income tax returns.

F. CONTINGENCIES

- The Authority is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants to the Authority in current and prior years. There was no such examination completed during the year ended June 30, 2006.
- The Commission's sole asset is a 24 unit senior citizen housing project, this operates in a heavily regulated environment. The Commission is subject to administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of congress or an administrative change mandated by HUD. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

## RAPID RIVER HOUSING COMMISSION

### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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#### G. PENSION

The Authority has adopted a Simplified Employee Pension Plan (SEP) covering employees who have met certain service requirements. The defined annual contribution provides for employer's match of 7.65% of gross wages. The Authority's contributions of \$2,297 are immediately vested with the employee upon payment.

#### H. RISK MANAGEMENT

The Authority is exposed to various risks of loss relating to property loss, torts, errors, and omissions, employee injuries and natural disasters. All risks of losses are covered by commercial insurance. There was no reduction in coverage from prior years and there were neither claims filed nor settlements of claims, which exceeded insurance coverage for the year ending June 30, 2006 or the prior four years.

#### I. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Authority is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. The total operating revenues for the year amounted to \$128,692, which consisted of \$62,679 (49%) in the form of HUD contributions.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

**SUPPLEMENTAL  
INFORMATION**

**RAPID RIVER HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

**June 30, 2006**

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
<b><u>ASSETS</u></b>				
<b>CURRENT ASSETS</b>				
Cash				
111	Cash-unrestricted	\$75,564	\$	\$75,564
100	Total cash	75,564		75,564
122	Accounts receivable-HUD	5,876		5,876
126	Accounts receivable-tenants	114		114
129	Accrued interest receivable	36		36
120	Total receivables	6,026		6,026
Other current assets				
131	Investments-Unrestricted	31,269		31,269
142	Prepaid expenses	1,358		1,358
143	Inventories	2,565		2,565
144	Interprogram due from		2,824	2,824
150	TOTAL CURRENT ASSETS	117,782	2,824	119,606
<b>NONCURRENT ASSETS</b>				
Fixed assets:				
161	Land	1,305		1,305
162	Buildings	1,433,641	28,059	1,461,700
163	Furniture,equipment-dwell	14,599		14,599
164	Furniture,equipment-admin	31,550		31,550
165	Leasehold improvements	217,769		217,769
166	Accumulated depreciation	(1,011,757)	(1,286)	(1,103,043)
167	Construction in progress		12,176	12,176
160	Fixed assets,net of accum deprec	687,107	38,949	726,056
180	Total non-current assets	687,107	38,949	845,662
190	Total Assets	\$803,889	\$41,773	\$845,662

See accompanying notes to financial statements.



RAPID RIVER HOUSING COMMISSION

FINANCIAL DATA SCHEDULE  
Proprietary Fund

June 30, 2006

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
<u>LIABILITIES AND NET ASSETS</u>				
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
312	Accounts payable< 90 days	\$2,590	\$	\$2,590
321	Accrued wages/payroll taxes	4,337		4,337
333	Accounts payable-other gov't	2,682		2,682
341	Tenant security deposits	4,363		4,363
347	Interprogram due to		2,824	2,824
310	Current liabilities	16,796	2,824	19,620
350	TOTAL NONCURRENT LIABILITIES			
300	TOTAL LIABILITIES	16,796	2,824	19,620
<u>NET ASSETS</u>				
508.1	Investment in capital assets, net of related debt	687,107	38,949	726,056
512.1	Unrestricted net assets	99,986		1,358
513	TOTAL NET ASSETS	787,093	38,949	826,042
600	TOTAL LIABILITIES AND NET ASSETS	\$803,889	\$41,773	\$845,662

See accompanying notes to financial statements.

RAPID RIVER HOUSING COMMISSION

FINANCIAL DATA SCHEDULE  
Proprietary Fund

For the Year Ended June 30, 2006

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
<u>REVENUES</u>				
703	Net tenant rental revenue	\$59,113	\$	\$59,113
704	Tenant revenue-other			
705	Total tenant revenue	59,113	\$	\$59,113
706	HUD PHA grants	31,776	10,000	41,776
706.1	Capital grants		20,903	20,903
711	Investment inc-unrestricted	1,961		1,961
715	Other revenue	6,900		6,900
700	TOTAL REVENUES	99,750	30,903	130,653
<u>EXPENSES</u>				
Administrative				
911	Administrative salaries	18,428		18,428
912	Auditing fees	1,800		1,800
915	Employee benefit contribution	1,530		1,530
916	Other operating-administrative	3,550		3,550
	Total Administrative	25,308		25,308
924	Tenant service-other	467		467
Utilities				
932	Electricity	13,856		13,856
933	Gas	12,413		12,413
	Total Utilities	26,269		26,269
Maintenance				
941	Ordinary maintenance-labor	11,601		11,601
942	Ordinary maintenance-material	2,954		2,954
943	Ordinary maintenance-contract	18,112		18,112
945	Employee benefit contribution	886		886
	Total Maintenance	33,553		33,553
General Expense				
961	Insurance premiums	4,251		4,251
963	Payments in lieu of taxes	2,682		2,682

See accompanying notes to financial statements.

**RAPID RIVER HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

**For the Year Ended June 30, 2006**

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
964	Bad debts- tenant rents	286		286
	Total General Expenses	7,219		7,219
969	TOTAL OPERATING EXPENSES	92,816		92,816
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	6,934	30,903	37,837
971	Extraordinary maintenance	5,794		5,794
974	Depreciation expenses	54,378	1,286	55,664
900	TOTAL OTHER EXPENSES	60,172	1,286	61,458
Other financing sources(uses)				
1001	Operating Transfers In	10,000		10,000
1002	Operating Transfers Out		(10,000)	(10,000)
1010	Total other financing sources(uses)	10,000	(10,000)	
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	(\$43,238)	\$19,617	(\$23,621)

See accompanying notes to financial statements.

RAPID RIVER HOUSING COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2006

<u>Federal Grantor Program</u>	<u>Federal CFDA Number</u>	<u>Program Award Amount</u>	<u>Federal Expenditures</u>
US Department of HUD			
Operating Subsidy	14.850a	\$31,776	\$31,776
CFP 2005 1/	14.872	28,059	8,727
CFP 2006	14.872	30,903	<u>22,176</u>
Total Federal Expenditures			<u>\$62,679</u>

1/ CFP 2005 - Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2005 reported expenditures of \$19,332.

See accompanying notes to financial statements.

Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance With Government Auditing  
Standards

Board of Commissioners  
Rapid River Housing Commission  
Rapid River, Michigan

We have audited the financial statements of the business-type activities of the Rapid River Housing Commission as of and for the year ended June 30, 2006, which collectively comprise the Rapid River Housing Commission's basic financial statements and have issued our report thereon dated November 6, 2006. We conducted the audit in accordance with auditing standards generally accepted in the United States of American and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Rapid River Housing Commission's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards*. The items noted are:


1. The Authority did not verify United States residency in one of two tenant files reviewed.
2. Our review of two tenant's files identified secondary pension proceeds are not being verified by outside confirmation as required.

We recommend that tenants residency and all sources of income be verified to assure that occupancy are being extended to eligible individuals and rental rates being charges are readily verifiable in determining accuracy of rental charges by the PHA.

### Internal Control over Financial Reporting

In planning and performing the audit, we considered Authority's internal control over financial reporting in order to determine auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, Board of Commissioners and federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties.

  
Roger J. Kolehmainen PC  
Certified Public Accountants  
Ironwood, Michigan

November 6, 2006